TREASURY DEPARTMENT
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REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
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AT THE 1969 MINING CONVENTION OF
THE AMERICAN MINING CONGRESS
SAN FRANCISCO, CALIFORNIA
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I should like to express my appreciation to the American Mining Congress and to our Co-Chairmen, Mr. Strauss and Dr. McLaughlin, for inviting me here to talk about silver. Since the founding of this great organization in 1898 the American Mining Congress has worked vigorously for safer and more efficient mining practices as well as playing a prominent role in all the major policy decisions which have kept the Government an active participant in the silver market. The Treasury has always welcomed your advice and now that we are approaching the end of that phase of the long monetary history of silver, I think it appropriate that we again exchange views.

At today's meeting I will present the Treasury's view of an appropriate silver and coinage policy during this sensitive period

when the market is making its final adjustment to complete independence from the Government as a buyer or seller of silver.

Historical setting

Before outlining the Treasury's current silver and coinage policy and the decision making process by which it was reached, I would like to very briefly review the events of the past decade. I think this is essential to understanding today's silver issues.

The series of events which will culminate in the final withdrawal of the Government from the silver market began in the late 1950's. At that time the Treasury held huge stocks of silver as a result of heavy purchases to sustain the silver price during the long period when the mines were producing far more silver than could be used for coinage and industrial needs. In December 1959 Treasury silver holdings totaled more than 2 billion ounces, nearly all of which was held as reserve against silver certificates.

About this time two trends of major significance to the future of silver became evident. The first was the rapid acceleration in

the demand for coins under the influence of an expanding economy and growing use of vending machines. The second key event was that for the first time in modern history rising industrial demand for silver exceeded current production both on a domestic and a world-wide basis. The growing gap between production and consumption was made up in large part from Treasury stocks of free silver which dropped by about 200 million ounces from April 1959 to November 1961, when sales were suspended.

At the same time the Government faced a rapidly growing need for silver to increase the circulating coinage. Obviously this supply could not come from domestic production which was already inadequate to meet industrial demand. In this situation the only practical way to obtain silver for coinage needs was through the gradual retirement from circulation of silver certificates thereby freeing the silver held as a reserve for these certificates. It was thought at that time that the retirement of silver certificates would make available enough free silver to meet the Treasury's

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coinage needs for many years into the future.

Unfortunately events did not work out that way. Over the next few years the tremendous production of coins required to keep pace with the increasing demands of the economy cut deeply into the Treasury's silver supply. In 1962 and 1963 nearly 200 million ounces of Treasury silver were used for coinage and the demand was still rising. Moreover, by mid-1963, under pressure of private market forces, the price of silver had risen to its monetary value of $1.29 per ounce. A continued price rise much beyond that point would have made it profitable to melt the subsidiary coins for their silver content and thereby threaten the continued circulation of our silver coinage. To prevent such a crisis the Treasury in July 1963 resumed the open sale of silver at the fixed price of $1.29 per ounce.

Over the next two years an adequate volume of silver coinage was maintained in circulation but only at the cost of huge amounts of Treasury silver. In 1964 and 1965 production of silver coins required over 500 million ounces of Treasury silver. During the same

period it was necessary to sell an additional 230 million ounces in the open market in order to keep the price at a level which would prevent a wholesale withdrawal of coins from circulation. In short, from 1962 to 1965 the Treasury had to use nearly 970 million ounces of silver in order to maintain an adequate volume of circulating silver coinage. This total was roughly equivalent to 25 years annual mining production in the United States.

By this time it was obvious that the use of silver in United States coinage for very long into the future was no longer possible. Recognizing this, the Congress in 1965 authorized the production of non-silver dimes and quarters, retaining only the 40 percent silver half dollar as a link to the past.

But the coinage crisis was not over by a long shot. The task now was to produce, during the relatively brief remaining period when it would be possible to keep an adequate amount of silver coins in circulation, enough cupro-nickel dimes and quarters to meet fully the economy's circulation needs.

To the everlasting credit of the men and women of the Treasury's Bureau of the Mint this race was won, although the finish was very close. By May of 1967, when the soaring demand for purchases of Treasury silver forced the final halt to open market sales at the fixed $1.29 price, enough cupro-nickel coins had been produced to tide us over the crisis.

But again the cost in Treasury silver had been high. In 1966 and 1967 another 100 million ounces of silver was used for the Kennedy half dollar and it was necessary to sell nearly 300 million ounces to maintain the $1.29 price. This brought the total amount of Treasury silver used from 1962 through mid-1967 in the attempt to maintain an adequate circulating silver coinage to approximately 1.3 million ounces.

In August 1967 the sale of surplus Treasury silver by the GSA through weekly competitive bids was begun and these sales have continued until the present time. Sales under this program to date have totaled some 220 million ounces. To round out this historical resume, just over 100 million ounces of silver were exchanged for

silver certificates during the year preceding the redemption cut-off in June 1968.

The Task Force Report

With this as background, let me now turn to the situation faced by this Administration early this year and review with you the process by which we arrived at our current policy position on silver.

In March 1969 Secretary Kennedy established a special task force of Treasury officials to review all major silver and coinage issues and recommend appropriate administrative actions and where necessary new legislation. I was a member of this group.

The Task Force took as its basic premise that a sound silver policy program should facilitate an orderly withdrawal of the Government as a participant in the silver market consistent with the following essential needs: (1) a strong and efficient monetary system, (2) maximum feasible fiscal return to the taxpayers, (3) minimum inflationary impact on consumer prices, and (4) minimum adverse impact on the balance of payments.

The Task Force first gave attention to determining what portion of the Treasury's supply of silver could be considered surplus to the Government's need over the foreseeable future. We concluded that the total amount of silver available to the Treasury in April of this year that was not directly committed for any future need was about 140 million ounces. This figure was over and above the 165 million ounces of silver which by law had been transferred to the strategic stockpile in June 1968.

In early May the Task Force completed its study and presented a report to the Secretary outlining its recommendations. The recommended program was then reviewed by and received the full approval of the Joint Commission on the Coinage, a non-partisan body established by law to advise the President and the Congress on silver and coinage matters. This 24 member Commission includes 12 members of Congress, 4 members from the Executive Branch, and 8 public members appointed by the President.

The administrative actions endorsed by the Commission were

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immediately put into effect by Secretary Kennedy. These were (1) lifting of the coin melting ban, and (2) a reduction of the weekly sales of silver by the GSA from 2 to 1-1/2 million ounces.

The Treasury's action in lifting the coin melting ban in May of this year was in our judgment a sound one. At that time the coin melting ban no longer served the purpose cited when it was first put into effect in May 1967, and I might add that a ban on melting coins was without precedent in our nation's history. The original purpose of the ban was to keep the silver dimes and quarters circulating during a period in which there was doubt that supplies of clad coins were fully adequate for commercial needs. But by May of this year virtually all the silver coins had disappeared from circulation and the supply of clad coins was fully adequate for commercial needs.

A secondary purpose of the coin melting ban was to enable the Treasury to build up its reserve of silver coins. However, by May of this year the remaining supply of outstanding silver coins was locked up in private hoards and the inflow to the Treasury had run

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3. Profits on silver sales would add substantially to the Treasury's revenue and since August 4, 1967 this profit has totaled over $100 million.

4. Continuation of Government silver sales would permit the market to adjust in an orderly manner to the inevitable point when the Government must cease to be a supplier, which we now think will be about the end of 1970.

The Task Force then turned to the question of an appropriate rate for sale of the Treasury's silver and concluded that the weekly amount of silver offered through the GSA should be reduced from 2 to 1-1/2 million ounces. The main justification for this action was the belief that since the Treasury would have to halt sales in less than two years, a gradual cut-back in the amount offered would help the market make an orderly adjustment to this fact. It was thought preferable to maintain the 1-1/2 million ounce rate rather than add further uncertainty by phasing out sales at gradually reduced levels.

We recognized that if the intent to maintain the 1-1/2 million ounce sales figure were made clear, participants in the silver market producers, users, and investors - would have full knowledge of the

time and extent of Government activity in the market. During this transition period the market would have ample opportunity to make an efficient adjustment to the time when - like other commodities - the price of silver would be determined entirely by private supply and demand. We felt that removal of uncertainty regarding the future of the Government's silver policy would add a stability to the silver market that should be welcomed by both producers and consumers.

The third administrative action taken by the Treasury with the endorsement of the Coinage Commission was to open the weekly GSA sale of silver to all bidders with no restrictions on the use of the silver purchased. Until that time silver sold by the GSA had to be consumed entirely by domestic industry. This restriction on the use of the silver was established during a period in which the prolonged refiners strike had sharply curtailed the domestic supply of industrial silver. In recognition of the temporary nature of this restriction, the Treasury in 1967 had signified its intent to remove it as soon as

feasible. In our judgment this action was long overdue.

Legislative program

I would like now to briefly outline the legislative recommendations recommended by the Task Force and which are now under consideration by the Congress. Provisions of this legislation of interest to this group would grant the Secretary of the Treasury authority to mint both a non-silver cupro-nickel half dollar and a non-silver cupro-nickel dollar coin.

The Treasury's request for authority to mint a non-silver half dollar was based on the conclusion that there is an important commercial need for an adequately circulating half dollar that can only be met by minting a non-silver coin. I think the most convincing argument for granting the Treasury this new authority is the fact that only a very small percentage of the roughly 1-1/4 billion silver half dollars - both 40 percent and 90 percent silver - minted since 1963 are actually circulating.

Well over 200 million ounces of silver have already been used to mint this coin. This is equal to the total amount of silver mined

in the United States since 1963. As Secretary Kennedy pointed out in a statement to the Coinage Commission, the 40 percent silver half dollar on our past experience is simply a losing proposition. The realistic choice we face is either to abandon this coin altogether or mint it of the same cupro-nickel clad material now used in dimes and quarters. We prefer the latter alternative.

The second major provision of the coinage bill would authorize the Secretary of the Treasury to mint cupro-nickel dollar coins of the same clad material now used in dimes and quarters. Before making this recommendation we gave very careful consideration to the composition of the new dollar coin which would bear a portrait of President Eisenhower. The principal issue was whether the coin should contain silver or be minted of the cupro-nickel clad material used in other coins. This is still an unresolved issue since on last Wednesday the House of Representatives voted for a cupro-nickel dollar coin just a few hours after the Senate voted for a 40 percent silver dollar. This issue will be resolved in the near future.

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There are many sound reasons why we believe that a cupro-nickel dollar coin is strongly in the public interest:

1. The primary purpose of coinage is to effectively serve as a medium of exchange, to buy goods and services. Only a non-silver dollar coin would actually circulate. The experience with the Kennedy half dollar demonstrates that silver coins will not circulate in significant quantity. The Treasury and the Joint Coinage Commission both concluded that there is a commercial need for a circulating dollar coin that can only be met by a non-silver coin.

2. Over the next fiscal year the non-silver dollar coin would mean a greater monetary return to the Federal Government than would be realized by a 40 percent silver coin. S.J. 158 which has passed the Senate would authorize the minting of 100 million 40 percent silver dollar coins a year for three years or until the supply of remaining silver is exhausted. Each 100 million of these coins would mean a return through seigniorage of about $52 million. By contrast, the monetary gain by producing each 100 million non-silver

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dollar coins would be about $95 million. In addition, if the remaining silver surplus is not used for coinage the Treasury could obtain as much as $50 million more in revenue in 1970 from continued sales through the GSA.

Moreover, if the Congress acts now to authorize the minting of a cupro-nickel dollar coin, the Treasury can move very quickly to mint this coin in volume production, depending, of course, on public demand and available appropriations. We could mint as much as 300 million of these coins by the end of 1970. The total seigniorage, at least in 1970, would certainly be greater for a cupro-nickel than for a 40 percent silver dollar coin. Over a three-year period the seigniorage return on the cupro-nickel coin could approach a billion dollars. The advantage to the public is that this seigniorage return reduces the Government's borrowing needs by an equivalent amount. However, under the provisions of the coinage bill passed by the Senate, the minting of a cupro-nickel dollar coin could not begin until the available silver supply is exhausted which might take several years.

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However, it should be emphasized that the major purpose of our coinage system is not to maximize seigniorage but to meet the country's need for an adequate supply of circulating coins. Seigniorage is simply the difference between the face value of a coin and the cost of its component materials. Including silver in a coin reduces seigniorage since silver is obviously more costly than copper or nickel. Although those who advocate the silver dollar assert that this would be equivalent to selling silver for $3.16 per ounce, it is no more logical to put a sale price on the silver in the coin than it would be to compute a sale price on the copper and nickel in dimes and quarters.

3. <u>Using our surplus silver for dollar coins would significantly increase our balance of payments deficit.</u> Current annual domestic silver production is less than 40 million ounces compared with industrial consumption of about 145 million ounces. If weekly GSA silver sales are halted because all our remaining surplus silver is reserved for dollar coins, then silver imports for industrial use

would have to increase substantially. We estimate that the resulting adverse effect on the balance of payments in the first year could be as much as $150 million.

4. <u>The final enactment of legislation recommended by the Treasury in addition to providing the economy with needed circulating coinage, would also be a major contribution toward alleviating the unstable conditions that have plagued the silver market for over two years.</u> The sharp and largely irrational movements in silver prices both up and down have been stimulated by rumors and uncertainties regarding anticipated Government actions. We think the enactment of the Treasury coinage bill will end this uncertainty by finally enabling the Treasury to clearly set forth just how much surplus silver it holds and how long and at what rate this silver will continue to be sold through open competitive bids.

As of September 30 the Treasury stock of silver bullion totaled about 80 million ounces. Of this total about 35 million ounces is in a form readily available for market sale. In addition we estimate

that the Treasury's inventory of silver in coins that will be melted into bars totals about 60 million ounces, a figure we consider reasonably accurate within a 10 million ounce range. As of now, the Treasury's total stock of silver, including silver coins, is approximately 140 million ounces. This figure is entirely separate from the 165 million ounces of silver already set aside in the defense stockpile.

The enactment of the ~~Treasury~~ bill would make surplus virtually all of the Treasury's remaining stock of silver except for the relatively small amount that might be required for minting of half dollars in a transition period. We estimate that the silver surplus which could be available over the next year is adequate to continue sales through the GSA at the current rate through the greater part of 1970. At that point the slate would be clean. In this clearly defined period of adjustment producers and users of silver have ample opportunity to gear their operations to eventual complete independence from Government sources of supply.

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In summary, the Treasury believes that the administrative actions that have been put into effect with regard to silver together with the prompt enactment of the coinage bill recommended by the Treasury will contribute greatly to a more effective coinage system and facilitate an orderly transition of the silver market to full reliance on private sources of supply.

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